

**REPORT OF THE AUDIT OF THE  
HARLAN COUNTY  
CLERK**

**For The Period  
October 11, 2011 Through December 31, 2011**



**ADAM H. EDELEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE HARLAN COUNTY CLERK**

**For The Period October 11, 2011 Through December 31, 2011**

The Auditor of Public Accounts has completed the Harlan County Clerk's audit for the period October 11, 2011 through December 31, 2011. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Revenues totaled \$1,123,641 and expenditures totaled \$1,088,819, resulting in excess fees of \$34,822 for the period October 11, 2011 through December 31, 2011.

#### **Report Comment:**

2011-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Donna Hoskins, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Harlan County, Kentucky, for the period October 11, 2011 through December 31, 2011. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the period October 11, 2011 through December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 11, 2012 on our consideration of the Harlan County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Donna Hoskins, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Harlan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

July 11, 2012



HARLAN COUNTY  
DONNA HOSKINS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period October 11, 2011 Through December 31, 2011

Revenues

Fiscal Court	\$	29,932
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	153,665
Usage Tax		382,825
Tangible Personal Property Tax		438,461

Other-

Fish and Game Licenses		205
Marriage Licenses		2,485
Deed Transfer Tax		6,783
Delinquent Tax		56,450
		1,040,874

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		8,308
Real Estate Mortgages		1,842
Chattel Mortgages and Financing Statements		16,629
Powers of Attorney		851
All Other Recordings		5,575

Charges for Other Services-

Candidate Filing Fees		650
Copywork		3,143
Notary		1,760
Temporary Tags		602
Miscellaneous		73
		39,433

Other:

Postage		330
Overpayments		10,482
Returned Check Income		2,590
		13,402

Total Revenues		1,123,641
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The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
DONNA HOSKINS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Period October 11, 2011 Through December 31, 2011  
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 102,619

Usage Tax 371,317

Tangible Personal Property Tax 168,371

Licenses, Taxes, and Fees-

Fish and Game Licenses 197

Delinquent Tax 4,662

Legal Process Tax 5,262

Affordable Housing Trust 3,852 \$ 656,280

Payments to Fiscal Court:

Tangible Personal Property Tax 69,738

Delinquent Tax 13,316

Deed Transfer Tax 6,453 89,507

Payments to Other Districts:

Tangible Personal Property Tax 182,454

Delinquent Tax 21,100 203,554

Payments to Sheriff

3,296

Payments to County Attorney

8,507

Operating Expenditures:

Personnel Services-

Deputies' Salaries 50,235

Employee Benefits-

Employer's Share Social Security 4,934

Employer's Share Retirement 11,195

Employer's Paid Health Insurance 8,791

Contracted Services-

Printing and Binding 7,640

Materials and Supplies-

Office Supplies 3,247

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
DONNA HOSKINS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Period October 11, 2011 Through December 31, 2011  
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-

Dues	\$	960	
Phone		785	
Uncollected Returned Checks		736	
Postage		1,502	
Refunds		10,854	
Election Expense		7,662	
Miscellaneous Expense		<u>1,867</u>	\$ <u>110,408</u>

Total Expenditures		\$ <u>1,071,552</u>
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Net Revenues		52,089
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Less: Statutory Maximum		<u>16,667</u>
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Excess Fees		35,422
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Less: Expense Allowance		<u>600</u>
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Excess Fees Due County for 2011		34,822
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Payment to Fiscal Court - February 17, 2012		<u>29,000</u>
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Balance Due Fiscal Court at Completion of Audit		<u>\$ 5,822</u>
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\* The County Clerk presented a check to Fiscal Court for the balance due on July 11, 2012.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT

For The Period October 11, 2011 Through December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
For The Period October 11, 2011 Through December 31, 2011  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Harlan County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Harlan County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Donna Hoskins, Harlan County Clerk  
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Harlan County Clerk for the period October 11, 2011 through December 31, 2011, and have issued our report thereon dated July 11, 2012. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Harlan County Clerk's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Clerk's financial statement for the period October 11, 2011 through December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Harlan County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

July 11, 2012

COMMENT AND RECOMMENDATION



HARLAN COUNTY  
DONNA HOSKINS, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Period October 11, 2011 Through December 31, 2011

INTERNAL CONTROL – MATERIAL WEAKNESS:

2011-01 The County Clerk's Office Lacks Adequate Segregation Of Duties

While reviewing the County Clerk's internal controls, we identified a lack of adequate segregation of duties over accounting functions. This exists because one employee was responsible for receiving cash, preparing the daily checkout sheets and bank deposits, posting to the receipts ledger, preparing disbursements, preparing the monthly bank reconciliation, and comparing the weekly, monthly, and quarterly reports to the receipts and disbursements ledger.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the County Clerk should separate the duties involving receiving cash, preparation of the daily checkout sheet and bank deposits, posting to the ledgers, preparing disbursements, performing reconciliations, and preparation of monthly reports. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Such oversight should be documented on the appropriate source documents. The following compensating controls could be implemented:

- The County Clerk could rotate the deputy/deputies responsible for preparing the daily deposit and daily checkout sheet.
- An individual independent of report preparation could compare the daily, weekly, and monthly reports to the County Clerk's receipts and disbursement ledgers. Any variances should be reconciled.
- The bank reconciliations performed by the in-house bookkeeper and off-site bookkeeper could be compared for inconsistencies by an independent individual.

*County Clerk's Response: I have or will implement all of the above recommendations beginning with my appointment on 10-11-2011 and continuing to do so.*

